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China, Peoples Republic of

Poultry and Products

Annual Report

2007

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Report Highlights:
FAS Beijing forecasts China's broiler production in 2008 to increase by five percent to 11.4 million MT. This increase will be partially driven by outbreaks of Porcine Reproductive and Respiratory Syndrome that have resulted in the loss of more than ten million swine over the year. With tighter pork supplies and higher prices, Chinese customers have mostly substituted broiler meat for pork. This will likely increase imports of broiler cut imports in 2008 that are forecast to increase by nine percent to 560,000 MT. The United States will continue to be the largest supplier to China, but U.S exports via Hong Kong transshipments face competition from Brazil and Argentina. In addition, market access for U.S. products could face difficulties resulting from a zero tolerance rule for certain pathogens.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Beijing [CH1]
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Executive Summary

FAS Beijing forecasts China's 2008 broiler production to increase by five percent to 11.4 million MT because of high demand resulting from swine disease and a reduced incidence of avian influenza. During 2006-2007, outbreaks of Porcine Reproductive and Respiratory Syndrome (PRRS) inflicted significant losses to China's swine industry. The resulting sharp pork price increases have encouraged Chinese consumers to shift from swine to other meats, mainly broiler meat. Strong demand and a sharp decrease in the incidence of highly pathogenic avian influenza (HPAI) are expected to push Chinese broiler production to its highest level since the 2004-2005 HPAI outbreaks.

FAS Beijing forecasts that China's 2008 broiler imports will increase by nine percent to 560,000 MT. This is expected despite rising broiler production since these increases will likely be insufficient to make up for depressed pork production. Since chicken is the most popular substitute for pork in China, this protein shortfall is likely to fuel increased broiler parts imports in 2008. Although the United States is expected to remain the largest supplier to China, U.S. exports via Hong Kong transshipments face considerable competition from Brazil and Argentina. Trade issues such as a zero tolerance for pathogens could also impede market access.

FAS Beijing forecasts China 2008 broiler exports to increase by 10 percent to 390,000 MT. The increase mainly comes from shipments to traditional export markets such as Japan, Hong Kong and South Korea that collectively account for more than 92 percent of China's exports.

Note: No data included in this report is official. All official USDA data is available at http://www.fas.usda.gov/psdonlineonline).

Rising Broiler Production

China's broiler production in 2007 is forecast to increase five percent to 10.9 MMT with another five percent rise expected to 11.4 MMT in 2008. Broiler production is expected to increase because of rising disease in swine, falling disease in poultry and possible access to new markets overseas.

China faces a significant shortage of swine and pork supplies because of outbreaks of Porcine Reproductive and Respiratory Syndrome (PRRS, or "blue ear disease"). Peaking from the latter half of 2006 to the first half of 2007, PRRS has resulted in more than 10 million swine dead or culled. At the same time, the poultry disease situation improved as HPAI outbreaks fell sharply -- mostly because of a compulsory vaccination subsidized by the Chinese Government. However, increasing broiler production is not expected to be able to offset decreased pork production until the end of 2008. Sheep and goat meat is not preferred by the Chinese while beef production is much smaller than poultry production. Therefore, broiler meat will continue to be the main substitute for pork in 2008.

Despite these changes, pork will continue as the dominant meat in the Chinese diet. China's total poultry production only accounts for nearly 20 percent of China's total meat production while pork accounts for about 65 percent. Demand for pork will likely remain strong because of its preferred taste and other reasons. For example, many Chinese do not eat poultry breast meat because they believe it has "no taste." However, other chicken parts are set to do better as demand increases for popular broiler cut imports such as chicken paws, wings, wing tips, drum sticks and leg quarters.

Since broiler meat is the closest substitute for pork in China, production recovered quickly from a downturn in 2004 and 2005 caused by HPAI. Since China's tight pork market is expected to continue into 2008, broiler demand is expected to remain strong. This will likely push China's 2008 broiler production to 11.4 MMT. Feed use patterns also reflect this change as well. During January-June 2007, China's broiler feed production increased by 22.4 percent to 14.8 MMT. For the longer term, poultry production will be influenced by corn prices and the competition from other uses such as ethanol, starch, and other industries since corn accounts for 50-60 percent of broiler feed.

A final reason for growth in the Chinese broiler industry is an expectation that the European Union will lift its ban on China's cooked poultry exports. This will likely spur production for export.

These strong increases in poultry production should benefit U.S. exports of breeding stock since China has to import almost all Western-bred stocks – with the United States as the largest supplier.

Rapidly Increasing Broiler Consumption

Chinese consumers' confidence in broiler consumption has recovered from the negative impact of the 2004-2005 HPAI outbreaks. At the same time, wholesale domestic pork prices increased from $1.72 per kilogram in January (up 13 percent compared to January 2006) to $2.57 (up 88 percent over August 2006). This has caused price sensitive middle and low-income consumers to move from pork to other meats, mainly broilers.

As poultry meat demand increases, new markets are opening for imported products. Until recently, Chinese consumers from the Yangtze River to the South preferred to use fresh Chinese variety yellow-skin chicken when cooking a whole-chicken dish or preparing soups. This is especially common in Guangdong, Guangxi and Hainan Provinces. Once prized for their better color and fragrant flavor, consumers are complaining that the new Chinese variety broilers have lost their original flavor since almost all are raised on commercialized farms rather than range fed. In addition, since many of the yellow-skin broilers are cross-bred with Western broilers in order to shorten the growing period of the local birds, the flavor is not what it once was. This has caused an opening for frozen U.S. poultry products, such as chicken paws, wing tips, drum sticks, and leg quarters that are gaining popularity, because they are more meaty, tender and juicier than the competition. U.S. jumbo-sized chicken paws are popular among wealthier consumers in large cities for use as ingredients in cold dishes or soups. Smaller-sized paws from Brazil and Argentina are mainly used to make cold dishes.

Increasing Imports

Post forecasts China's broiler imports to grow at least by nine percent to 560,000 MT. China's poultry imports are expected to remain strong in 2007 because of short domestic pork supplies and rising production of broiler and other poultry meat. Although average unit broiler prices increased internationally by 37 percent to $1,131 MT, it is only $1.03 KG, cheaper than $1.91 KG at domestic wholesale markets. An eight percent appreciation in the Chinese Yuan versus the U.S. Dollar has also encouraged imports. In addition, imports are expected to remain high because of tight pork supplies into 2008 and demand created by the 29th Summer Olympic Games and related growth.

Looking further into 2008, the rate of import growth is expected to be lower. This is partly because of raising domestic broiler production and recovering pork production. Trade may also be limited by sanitary issues that could adversely affect market access. China has been enforcing zero tolerances for certain pathogens such as *salmonella*, *E. coli* and *listeria* -- even in uncooked products. As a result, China has banned the entry of products from plants processing these products because of the pathogen detections. This “delisting” has affected several U.S. poultry plants in the last couple of months. (Note: Since there is no list of eligible plants, there is no list. However, the “delisting” terminology is widely used in the trade.). AQSIQ has also shut off the only exporting Brazilian poultry plant, the largest such facility in Brazil. It banned the Brazilian processor on the suspicion that it exports other plants’ products without AQSIQ’s approval. It is said that the plant exports far beyond its production capability.

Although bilateral discussions continue, it is unclear when AQSIQ is going to “relist” the U.S. plants. The normal procedure is that after AQSIQ makes detections, it will notify the U.S. Embassy and give the U.S. plants 45 days to make corrections. If the same problems occur on products from the same companies -- or during the 45-day corrective period, AQSIQ will delist the plants. For plant relisting, AQSIQ requests an official letter from the Food Safety and Inspection Service (FSIS), U.S. Department of Agriculture, certifying that proper corrective measures have been taken to correct the the problems. After reviewing the letters, AQSIQ will decide whether to relist the plants. AQSIQ may also request to do a spot inspection of the plants. In practice the system has been difficult to administer because of differing standards between the two countries. USDA and FAS Beijing will continue working with relevant Chinese agencies to resolve the issue.

China is not a traditional market for U.S. broiler leg quarters. However, when Russia, United States’ largest traditional market, reduced imports of U.S. leg quarters, these products entered China’s market. Since Chinese consumers are getting more used to U.S. leg quarters, high imports in 2007 and 2008 will likely continue. At the same time, the trend of importing other traditional cuts such as chicken paws, wings, and wing tips will remain the same as before. Chicken paw imports will continue to account for almost half of China’s total broiler imports.

Although the United States will likely continue to be the largest supplier to China in 2008, its exports via Hong Kong transshipments are increasingly challenged by Brazil and Argentina. From January to July 2007, Brazil was the largest supplier, while the gap between the United States and Argentina by export volume is narrowing. Brazil and the Unites States are competing most strongly in chicken paw and wing products. However, the market remains differentiated. Larger and meatier U.S. chicken paws normally go to the wealthier Chinese consumers who can pay higher prices, while Argentine chicken paws go the low-end market. Brazilian products are getting popular in both chicken paws and wings because of lower moisture and soldier packed layers for whole chicken wings by hand.

Another possible challenge may come from the European Union in 2008. In August 2007, the Chinese State Council published the “White Book on China’s Food Quality and Safety Situation” claiming the EU will lift its ban on China’s cooked poultry before the end of 2007. Post understands that the EU may allocate a quota for China’s cooked poultry exports, mainly breast meat. And China will in turn trade with EU for their chicken cuts like paws, drum sticks, leg quarters and wings.

LPAI: Seven U.S. States Banned

The Ministry of Agriculture (MOA) and the General Administration of quality Supervision Inspection and Quarantine (AQSIQ) jointly suspended poultry exports to China from Connecticut, New York, Rhode Island, West Virginia, Pennsylvania, Virginia and Nebraska because of Low Pathogenic Avian Influenza (LPAI). The United States believes this action is not based on sound science since OIE does not require reporting on LPAI. These restrictions could impact U.S. exports considerably because transshipments from non-LPAI states exiting the United States through these states could also be affected by the ban. To reopen a banned state, China requests a letter from the Animal and Plant Health Inspection Service (APHIS) of the United States Department of Agriculture (USDA) notifying the MOA and AQSIQ that the AI outbreaks are eliminated. The letter can request a reopening of the market 21 days after there is no new outbreaks in the state in question.

Rising Chinese Broiler Exports

Increases of Chinese broiler meat are expected to come mostly from increases in traditional export markets such as Japan, Hong Kong and South Korea – all of which collectively account for more than 91 percent of China's exports. At the same time, China is trying to get its frozen products into nontraditional markets. Malaysia is reported to have resumed frozen poultry imports from two Chinese companies in Shandong Province. At the end of 2006, Malaysian veterinarians studied avian influenza control at the plants and agreed to resume imports. Although the two plants may not export much, this move is significant because this is the first time that an export market reopened its market for China's frozen broilers after over 40 countries closed their markets because of HPAI in 2004.

Rising Poultry Egg Production

Post forecasts China's total poultry egg production in 2008 to increase by two percent to 29.5 MMT from 2007. Poultry egg production in 2007 is expected to remain flat. The Production is still recovering from impact of HPAI during 2004-2005. Tight egg supplies are expected to continue till the end of 2007 because of the insufficient supply of commercial layers. According to the egg industry, China only raises 250,000 sets of grand-parent breeding layer stocks a year in the last couple of years. About 220,000 are imported mainly from the United States. Egg layer inventory decreased by 30 percent on average till mid 2006 due to HPAI. As a result, egg prices have increased by 44 percent on average during January-July 2007. Higher corn (up 22 percent) and soy meal (up three percent) prices are other incentives leading to higher egg prices. Post believes that egg prices will relax as production is expected to increase in 2008.

Poultry PS&D Table

PSD Table

Country **China, Peoples Republic of**

Commodity **Poultry, Meat, Broiler**

(MIL HEAD)(1000 MT)(PERCENT)

	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Inventory (Reference)	0	0	0	0	0	0	0	0	0
Slaughter (Reference)	7640	7640	7640	7800	7800	8000	0	0	8444
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	10350	10350	10350	10520	10520	10850	0	0	11400
Whole, Imports	0	0	0	0	0	0	0	0	0
Parts, Imports	343	343	343	430	430	513	0	0	560
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0	0	0	0
Total Imports	343	343	343	430	430	513	0	0	560
Total Supply	10693	10693	10693	10950	10950	11363	0	0	11960
Whole, Exports	0	0	0	0	0	0	0	0	0
Parts, Exports	322	322	322	330	330	353	0	0	390
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0	0	0	0
Total Exports	322	322	322	330	330	353	0	0	390
Human Consumption	10371	10371	10371	10620	10620	11010	0	0	11570
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	10371	10371	10371	10620	10620	11010	0	0	11570
Total Use	10693	10693	10693	10950	10950	11363	0	0	11960
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	10693	10693	10693	10950	10950	11363	0	0	11960
CY Imp. from U.S.	254	254	254	301	301	297	0	0	340
CY Exp. to U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0	0	0
Production Change	1	1	1	0	2	5	-100	-100	5
Import Change	57	57	57	0	25	50	-100	-100	9
Export Change	-3	-3	-3	-10	2	10	-100	-100	10
Trade Balance	-21	-21	-21	-100	-100	-160	0	0	-170
Consumption Change	3	3	3	0	2	6	-100	-100	5

Not official USDA Data

Poultry Trade Matrix

China Broiler Meat Direct Imports, 2005-2007 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jul		Jan - Jul
Origin	Quantity	Quantity	Quantity Comparison		% Change
	2005	2006	2006	2007	2007/06
World	370,873	572,218	325,406	459,522	41.21
United States	196,659	390,748	27,584	281,330	23.62
Brazil	142,872	142,812	74,660	153,775	105.97
Argentina	24,188	27,702	14,326	24,407	70.37
Chile	2,502	9,044	6,929	0	-100.00
France	1,659	1,266	1,266	0	-100.00
Philippines	59	488	488	0	-100.00
Canada	2,758	150	150	0	-100.00
Other	176	8	3	10	233.33
HS Code: 020711, 020712, 020713, 020714 and 160232					
Note: China chicken paw imports under HS Code 02071422 is included in this table, but					
excluded in the PS&D table.					
Source: GTA China Customs Statistics					

China Chicken Paw Direct Imports, 2005-2007 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jul		Jan - Jul
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2005	2006	2006	2007	2007/06
World	189,178	289,171	152,522	230,877	51.37
United States	103,211	156,974	83,822	120,266	43.48
Brazil	60,724	98,851	49,935	89,166	78.56
Argentina	23,138	26,907	13,961	21,424	53.46
Chile	2,034	6,439	4,804	0	-100.00
Other	71	0	0	21	0.00
HS Code: 020714.22					
Source: GTA China Customs Statistics					

Hong Kong Broiler Re-Exports to China, 2005-2007 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jul		Jan - Jul
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2005	2006	2006	2007	2007/06
World	105,503	177,393	105,149	152,645	45.17
Brazil	43,202	113,420	58,933	117,713	99.74
United States	41,937	38,682	28,625	13,130	-54.13
Argentina	5,284	11,454	6,300	7,873	24.97
Chile	5,068	7,720	6,302	1,106	-82.45
Iran	3,710	2,352	2,351	863	-63.29
France	728	932	907	2,036	124.48
Netherlands	299	52	207	1,841	789.37
Canada	404	273	124	2,450	1875.81
United Kingdom	268	199	76	362	376.32
Other	4,603	2,309	1,324	5,271	298.11
HS Code: 020711, 020712, 020713, 020714 and 160232					
Note: China chicken paw imports under HS Code 02071410 is included in this table, but					
excluded in the PS&D table.					
Source: WTA from Hong Kong Census and Statistics Department					

Hong Kong Chicken Paw Re-Exports to China, 2004-2006 (2004-2007)					
	Jan-Dec	Jan-Dec	Jan - Jul		Jan - Jul
	Quantity	Quantity	Quantity Comparison		% Change
Origin	2005	2006	2006	2007	2007/06
World	68,407	117,087	68,158	82,019	20.34
Brazil	24,223	74,345	37,051	62,973	69.96
United States	27,803	23,658	18,430	7,014	-61.94
Argentina	4,987	11,112	6,114	7,082	15.83
Australia	0	0	0	707	0.00
France	157	0	0	712	0.00
Poland	0	0	24	848	0.00
Chile	3,630	4,731	3,042	505	-83.40
Iran	3,710	1,947	1,946	566	-70.91
Canada	176	23	0	98	0.00
Turkey	3,215	0	0	135	0.00
Other	506	1,271	1,551	1,379	-11.09
HS Code: 020714.22					
Source: WTA Hong Kong Census and Statistics Department					

China Broiler Meat Exports, 2005-2007 (Metric Tons)					
	Jan-Dec	Jan-Dec	Jan - Jul		Jan - Jul
Destination	Quantity	Quantity	Quantity Comparison		% Change
	2005	2006	2006	2007	2007/06
World	331,524	321,761	182,123	205,695	12.94
Japan	178,411	196,282	110,932	119,356	7.59
Hong Kong	88,569	91,892	51,928	61,550	18.53
Korea South	8,673	12,320	6,433	7,446	15.75
Malaysia	387	201	81	2,705	3239.51
Bahrain	4,272	4,821	2,792	3,161	13.22
Macau	1,739	2,001	1,044	1,593	52.59
United States	4,154	3,027	2,262	424	-81.26
South Africa	0	235	115	1,080	839.13
Iraq	2,062	1,593	949	951	0.21
Somalia	3,796	1,323	573	778	35.78
Aruba	630	933	675	806	19.41
Azerbaijan	2,847	0	-	1,229	0.00
Kenya	293	1,170	560	579	3.39
Singapore	1,483	1,409	760	329	-56.71
Armenia	1,969	96	96	487	407.29
Other	32,239	4,458	2,923	3,221	10.20
HS Code: 020711, 020712, 020713, 020714 and 160232					
Note: No exports of chicken paws					
Source: GTA China Customs Statistics					

CHINA WHOLESALE BROILER MEAT PRICES ON AVERAGE
2004-2007 (US$/KG)

	2004	2005	2006	2007	% Change 2007/2006
January	1.01	1.03	0.93	1.14	22.58%
February	0.92	1.03	0.94	1.18	25.53%
March	0.97	1.11	0.90	1.20	33.33%
April	0.96	1.10	0.90	1.30	44.44%
May	0.95	1.12	0.92	1.26	36.96%
June	0.98	1.11	0.89	1.43	60.67%
July	1.05	1.05	0.93	1.39	49.46%
August	1.09	1.06	1.00		
September	1.12	1.09	1.08		
October	1.13	1.01	1.13		
November	1.06	0.92	1.16		
December	0.97	0.91	1.12		

Source: The Ministry of Agriculture

CHINA WHOLESALE LIVE CHICKEN PRICES ON AVERAGE
2004-2007 (US$/KG)

	2004	2005	2006	2007	% Change 2007/06
January	1.10	1.13	0.87	1.27	45.98%
February	1.02	1.17	1.11	1.24	11.71%
March	0.98	1.21	1.00	1.21	21.00%
April	1.07	1.28	1.02	1.23	20.59%
May	1.13	1.33	0.98	1.47	50.00%
June	1.18	1.2	0.95	1.62	70.53%
July	1.21	1.16	0.91	1.70	86.81%
August	1.24	1.18	1.04		
September	1.22	1.22	1.03		
October	1.21	1.08	1.23		
November	1.17	0.98	1.22		
December	1.22	0.97	1.17		

Source: The Ministry of Agriculture

CHINA'S WHOLESALE CHICKEN EGG PRICES
ON AVERAGE 2004-2007 (US$/KG)

	2004	2005	2006	2007	% Change 2007/06
January	0.63	0.69	0.58	0.70	20.69%
February	0.55	0.68	0.57	0.77	35.09%
March	0.60	0.64	0.54	0.73	35.19%
April	0.58	0.64	0.54	0.79	46.30%
May	0.59	0.72	0.54	0.81	50.00%
June	0.66	0.71	0.55	0.80	45.45%
July	0.67	0.71	0.59	0.78	32.20%
August	0.74	0.74	0.65		
September	1.92	0.72	0.74		
October	0.71	0.67	0.72		
November	0.68	0.62	0.74		
December	0.68	0.61	0.75		

Source: The Ministry of Agriculture

Other Relevant Reports

GAIN – FAS/USDA

CH7016 – Poultry Semi-Annual Report
CH7034 - China Suspends Imports of U.S. Poultry Products from West Virginia
CH7043 - AQSIQ Quarantine Import Permit Changes
CH7044 - The Story Behind China's Rising Pork Prices
CH7059 - China to attach inspection and quarantine labels for food exports
CH7062 - AQSIQ and MOA Joint Announcement No. 885 - China Bans Virginia Poultry
CH7066 – FAIRS Country Report - China
CH7070 - Food Recall Regulation
CH6117 - Challenges to Increasing U.S. Sales of Chicken Paws to China